GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:166
ANSWERED ON:02.12.2011
CREDIT RISK MANAGEMENT BY BANKS
Roy Shri Arjun;Yadav Shri Hukamdeo Narayan

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) in its recent Report has expressed its concern over the rise in the Non Performing Assets (NPAs) of banks in various sectors;

(b) if so, the reaction of the Government thereto;

(c) whether in spite of taking various administrative and legislative actions, the NPAs are still untamed;

(d) whether the Government proposed to review such measures in order to bring down NPAs and tighten credit risk management by banks; and

(e) if so, the details thereof?

Answer

THE MINISTER OF FINANCE (SHERI PRANAB MUKHERJEE)

(a) & (b): A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO. 166 FOR 2nd DECEMBER, 2011 "CREDIT RISK MANAGEMENT BY BANKS" TABLED BY SHERI ARJUN RAY AND SHERI HUKUMDEV NARAYAN YADAV.

(a): In the recently released :Report on trend and Progress of Banking in India 2010-11", the Reserve Bank of India (RBI) has stated that while gross Non-Performing Assets (NPAs), in percentage terms, have declined steadily from 15.70 percent at end March 1997 to 2.25 percent at end March 2011, this does not fully reveal the underlying realities and some trends are a matter of concern, which could put pressure on asset quality of banks in future. Aggressive lending during the high credit growth phase followed by the crisis resulted in slippage ratio steadily rising from 1.81 percent at end March 2008 to 2.21 percent at end March 2010, followed by a slight moderation to 2.01 percent in March 2011. The concern is that the recoveries have not kept pace with slippages since 2007-08. Rising interest rates and substantial amount of restructuring done during the crisis period, if not done with due care, are likely to put further pressure on asset quality of banks. Further, asset quality of banks needs to be closely watched in the changing interest rate environment as the sticky loan portfolio of small and medium enterprises might rise.

(b) & (c): The overall trends in NPAs presently do not indicate any systemic vulnerability. Although, the gross NPAs (GNPAs), increased in absolute terms in 2010-11 over the previous year, at a system level, the GNPA ratio of scheduled commercial banks still remains low

(2.25% as at March 31, 2011).

(d) & (e) Banks are already sensitized to closely watch the NPA position and t5he same is also monitored regularly by the Government and RBI. Various measures, taken with regard to NPA recovery, are presently considered to be sufficient.